





Section 15

Global Risks 2018

In January 2018, the World Economic Forum published its Global Risks Report 2018, 13th Edition. The report shares the perspectives of global experts and decision-makers on the most significant risks that face the world – cautions that we are struggling to keep up with the accelerating pace of change. It highlights numerous areas where we are pushing systems to the brink, from extinction-level rates of biodiversity loss to mounting concerns about the possibility of new wars. The key messages of the report are provided below.

The authors highlight that humanity has become remarkably adept at understanding how to mitigate conventional risks that can be relatively easily isolated and managed with standard risk-management approaches. But we are much less competent when it comes to dealing with complex risks in the interconnected systems that underpin our world, such as organizations, economies, societies and the environment.

Environmental risk has grown. Cybersecurity risks are also growing. Attacks against businesses have almost doubled in five years. Whereas the global economy has improved (according to IMF, global GDP growth was 3.6% for 2017 against 3.2% in 2016), 53% of countries have seen an increase in income inequality. Societal polarization increases the risk of conflicts. Political confrontation is growing, particularly of right-wing forces. The trend towards increasingly personalized power takes place (Trump, China, Japan, Russia, Turkey, Saudi Arabia, and Philippines).

Expectations of respondents for 2018:

- 93% of respondents expect worsening of “political or economic confrontations between major powers”;
- 79% of respondents expect state-on-state military conflict;
- 78% of respondents expect regional conflicts;
- 73% of respondents is sure about erosion of multilateral trading rules and agreements;
- 67% of respondents assume the loss of confidence in collective security alliances; and
- 58% of respondents is sure in erosion of global policy coordination on climate change.

Extreme weather events in the first half of 2017 caused the most deaths in 8 cases. 76% of the 31.1 million people displaced during 2016 were forced from their homes as a result of weather-related events. 2016 and 2017 were among the three hottest years on record. Biodiversity loss occurred at mass-extinction rates. A record 29.7 million hectares of tree cover was lost in 2016. This loss was about 50 percent higher than in 2015. Air pollution is getting worse. According to WHO, more than 90% of the world's population live in areas with levels of air pollution that exceed WHO guidelines. In November 2017, air pollution in Delhi reached more than 11 times the WHO guideline levels. The Lancet Commission on Pollution and Health estimated the overall annual cost of pollution to the global economy at US\$4.6 trillion, equivalent to around 6.2% of output. Plastic waste in the world's water is approximately 8 million tons every year.

The growing urgency of acting to halt climate change was demonstrated in 2017 with the news that emissions of CO₂ had risen for the first time in four years, bringing atmospheric concentrations of CO₂ to 403 parts per million, compared with a pre-industrial baseline of 280 parts per million. Researchers suggest that the capacity of two major CO₂ absorbers – oceans and tropical forests – to absorb have declined, with dramatic decline of capacity in tropical forests.

The risk that political factors might disrupt efforts to mitigate climate change was highlighted last year when President Trump announced plans to withdraw the United States from the Paris Agreement. However, many US businesses, cities and states have pledged to help deliver on the country's emissions reduction targets. In November 2017 the managers of Norway's sovereign wealth fund recommended divesting from oil and gas shares, and in December the World Bank announced a moratorium after 2019 on financing upstream oil- and gas-related investments.

Headline economic indicators suggest the world is finally getting back on track after the global crisis that erupted 10 years ago – pickup in GDP growth rates, increase in stock markets, and increased creditworthiness of central banks. However, this relatively upbeat picture masks numerous concerns: waviness of price and economic indices, high spikes in the stock market. Bond valuations are even more dramatic. In mid-2017, around \$ US 9 trillion worth of bonds were traded with a negative yield. This showed their real cost. Consequently, the value of European finance papers has also

dropped. This resulted in economic decline in the countries connected with USA and Great Britain.

On the other hand, growing black-market prices of residential houses in large cities up to the pre-crisis level in combination with new financial rapidly increasing tools, such as cryptocurrency Bitcoin (which increased in value by around 1200% in 2017) threatens with "explosion" of real market. Recessions accompanied by credit contractions and huge loan arrears of pre-crisis period resulted in debt of non-financial sector (governments and non-financial companies) totaled US\$135 trillion in 2016, up from US\$80 trillion in 2007. China's banking sector has ballooned to hold assets valued at US\$33 trillion, or 3.1 times the country's annual output. Arguably, these figures understate the full extent of the country's potential fragilities.

The governors of the European Central Bank, given the forecast of Chinese capital in the world bank system, caution that the collapse of Chinese financial system would entail the collapse of global financial market. China can deploy vast resources to protect its economy, but most emerging economies may face crisis and fall under sway of USA and any other world financial institutes.

Technological advances undoubtedly lead to improved financial and economic efficiency. However, they pose the risk of reduced employment. At the same time, the complex food system is becoming more vulnerable to sudden supply shocks, such as extreme weather, crop diseases, political instability or different transboundary constraints related to water availability. Here, particular attention should be paid to reduction of food losses while processing, transporting, and overcoming climate shocks. Greater involvement of artificial intelligence through the Internet of Things (IoT) makes information exchange more universal and more subjected to unauthorized interference, including malicious interference. There is a possibility of losing controllability. Digital technologies put a wider public under pressure. Thus, strict regulation of and rate setting on the use of artificial intelligence products are needed. Otherwise, humanity will be paralyzed. Cyber risk is increasing faster than cyber security; this leads to misinformation, communication breakdown, and loss of controllability.

At a time of global geopolitical uncertainty, the twin forces of national identity and self-

determination are growing in disruptive capacity. Already this is leading to violence and constitutional instability, at times spurred on by foreign powers. Examples include states expelling ethnic or religious minorities, national minorities attempting to secede and nation-states extricating themselves from international constraints on their sovereignty. A deepening of disputes over cultural and political borders would trigger widening clashes, potentially causing regional domino effects as states and sub-state actors mobilize in defence of or opposition to the status quo. This instability is long-standing and hard to be resolved. Stronger promotion and protection of equal cultural and political rights within states, same as the fostering of links between states, would demonstrate successful examples of constitutional innovation.

In fact, large infrastructure plans, such as under the China's Belt and Road Initiative (BRI), which spans more than 60 countries, China Pakistan Economic Corridor, and Bangladesh-China-India-Myanmar Economic Corridor were to foster peaceful relations by creating new links and patterns of cooperation. However, the ambitiousness of some of these plans has raised concerns that they might exacerbate rather than prevent tension. The geostrategic interdependence they create – both through the physical presence of assets and people on the ground and through patterns of increased indebtedness, which is a potential source of vulnerability for lower income countries in particular – are more durable and difficult to unwind than mere trade agreements. This raises questions about potential implications if relationships between corridor partners were to sour in the future.

Another risk factor is associated with the youth unemployment, which has increased worldwide since 2014. Although unemployment in USA under Donald Trump sharply decreased from 20% to 15%, this indicator exceeds 20-25% in the Arab world and the European Union.

Finally, the report, among six societal crises, highlights water crisis as "a significant decline in the available quality and quantity of fresh water, resulting in harmful effects on human health and economic activity".

The Global Risks Report 2018 is available at:
http://www3.weforum.org/docs/WEF_GRR18_Report.pdf